

John Leatherman
February 24, 2009

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NON-BINDING ARBITRATION INITIATED 10/21/08
PURSUANT TO
DECREE OF MAY 19, 2003, 538 U.S. 720
KANSAS V. NEBRASKA & COLORADO
NO. 126, ORIG, U.S. SUPREME COURT

DEPOSITION OF JOHN LEATHERMAN,
produced, sworn, and examined on Tuesday, the 24th
day of February, 2009, between the hours of 8:00
o'clock in the forenoon and 6:00 o'clock in the
afternoon of that day at Husch Blackwell Sanders LLP,
4801 Main Street, in the City of Kansas City, County
of Jackson, State of Missouri, before:

JANE A. BLACKERBY, RPR, CCR
Registered Professional Reporter
of
JAY E. SUDDRETH & ASSOCIATES, INC.
Suite 100
10104 West 105th Street
Overland Park, Kansas 66212-5755

a Certified Court Reporter within and for the State
of Missouri.

Taken on behalf of the State of Nebraska.

John Leatherman
February 24, 2009

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1	APPEARANCES			1	JOHN LEATHERMAN,		
2	For the State of Kansas:			2	of lawful age, having been first duly sworn to tell		
3	MONTGOMERY & ANDREWS, P.A.			3	the truth, the whole truth, and nothing but the		
4	Attorneys at Law			4	truth, testified as follows:		
5	325 Paseo De Peralta			5	DIRECT EXAMINATION		
6	Santa Fe, New Mexico 87501			6	BY MR. WILMOTH:		
7	BY: Mr. John B. Draper			7	Q. Good morning, Dr. Leatherman. How are		
8	For the State of Nebraska:			8	you today?		
9	HUSCH BLACKWELL SANDERS LLP			9	A. I'm fine, thank you.		
10	Attorneys at Law			10	Q. Feeling okay today? Nothing would		
11	206 South 13th Street, Suite 1400			11	prohibit you from testifying truthfully and		
12	Lincoln, Nebraska 68508			12	accurately, to your knowledge?		
13	BY: Mr. Tom R. Wilmoth			13	A. No.		
14	For the State of Colorado:			14	Q. Thank you for coming. I think you are		
15	MR. PETER J. AMPE			15	aware that I'll be asking you some questions today		
16	First Assistant Attorney General			16	about the report that is titled Economic Impacts		
17	1525 Sherman Street, 7th Floor			17	on Kansas of Diminished Surface Water Supplies to		
18	Denver, Colorado 80203			18	the Lower Republican River Basin Caused by		
19	Also Present:			19	Nebraska in 2005 and 2006 dated January 20 --		
20	Mr. Dale E. Book, P.E.			20	A. Yes.		
21	Mr. Bill Vogel			21	Q. -- of 2009. You're familiar with that		
22	Mr. Christopher M. Gruenwald			22	report?		
23	Mr. Burke W. Griggs			23	A. Yes, I am.		
24	Ms. Donna L. Ormerod			24	Q. And for the record, that report was		
25	Mr. Thomas E. Riley, P.E.			25	marked as Exhibit 20 to Dr. Kastens' deposition.		
	Mr. Marc Groff, P.E.						
	Mr. Gordon R. Coke, P.E.						
	Mr. Marcus A. Powers						
	Mr. James R. Williams, P.E.						
	Mr. Justin D. Lavene						
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	Direct Examination by Mr. Wilmoth	4					
	Signature:	34					
	Certificate:	35					
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1	EXHIBITS			1	To the extent we'll be referring to that report in		
2	EXHIBIT	PAGE		2	this deposition, we'll be referring to that		
3	NUMBER DESCRIPTION REFERENCED			3	exhibit. I'll also refer to it as the economic		
4	23 Testimony on Substitute of SB 89			4	report for simplicity sake.		
5	Disposition of moneys recovered			5	Do you have a copy of that report		
6	from Republican River Compact			6	available to you or would you like a copy?		
7	Litigation to the House Agriculture			7	A. No, I do not.		
8	and Natural Resources Committee 19			8	Q. I have a clean copy. Dr. Leatherman,		
9				9	what is your educational background?		
10				10	A. I received a degree -- a Bachelor of Arts		
11				11	Degree in Psychology from the University of Wisconsin		
12				12	at Milwaukee I believe in 1980. Master of Science		
13				13	Degree in Natural Resource Management from the		
14				14	University of Wisconsin, Stevens Point, I believe, in		
15				15	1985 and then a Ph.D. in Urban and Regional Planning		
16				16	from the University of Wisconsin, Madison, in 1995.		
17				17	Q. And what is your professional background		
18				18	since you -- since 1995?		
19				19	A. I'm a professor in the Department of		
20				20	Agricultural Economics at Kansas State University.		
21				21	Q. And you have held that position since		
22				22	1995?		
23				23	A. That's correct.		
24				24	Q. And do you teach any course work there?		
25				25	A. My position is extension outreach work.		

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<p style="text-align: right;">Page 6</p> <p>1 Q. Is this position similar to that 2 described by Mr. Kastens earlier? 3 A. Similar insofar as we both do outreach work, 4 although our areas of specialty differ quite 5 significantly. 6 Q. In what regard? 7 A. I generally work in the area of rural 8 development, which deals with such things as 9 community economic development, local public finance, 10 environment management issues. 11 Q. And you're currently under contract to 12 the state of Kansas to assist in the Republican 13 River matter. Is that correct? 14 A. That's correct. 15 Q. Does the scope of that service include 16 production of this report? 17 A. Yes. 18 Q. The economic report, for the record. 19 Does the scope of your employment include anything 20 else related to the Republican River? 21 A. No. 22 Q. Have you done any other projects under 23 contract to the state of Kansas, aside from your 24 agricultural extension work? 25 A. I have worked under contract in my official</p>	<p style="text-align: right;">Page 8</p> <p>1 objective of trying to conserve water resources in 2 southwestern Kansas. 3 Q. What is the practical implication of 4 implementing that program on water use? 5 A. Well, there are, perhaps, several, but the 6 most obvious one would be the objective of trying to 7 conserve water from the aquifer. 8 Q. And how does it operate to do that? How 9 does the CRP program or the base program operate 10 to achieve that goal? 11 A. I can speak only generally. I am not an 12 expert on the mechanics of how that program works, 13 but essentially they allow landowners the opportunity 14 to retire irrigation rights for a period of time in 15 return for compensation. 16 Q. Do you have any idea what that 17 compensation structure is? 18 A. No. I can't answer that right for you. 19 Q. Regarding dollar figures, you don't 20 know? 21 A. No. 22 Q. In terms of your work on the economic 23 paper, I'm sorry, the economic report, did you 24 apply this knowledge that you learned in working 25 on that CRP analysis?</p>
<p style="text-align: right;">Page 7</p> <p>1 employment capacity on a variety of projects for the 2 state of Kansas, but I have never done so as an 3 independent consulting agent. 4 Q. Okay. Could you describe generally the 5 nature of some of those projects that you were 6 involved in? 7 A. Oh, one was estimating the economic impact 8 of the conservation reserve enhancement program in 9 southwestern Kansas. That was one for which I was 10 directly contracted, and I have received several 11 grants to do water shed management planning, oversee 12 work in that area. I have received funding to 13 support outreach work relating to rural health care 14 economics. Those are the major ones that I can think 15 of recently. 16 Q. Regarding your estimation of the impact 17 of the CRP program, could you describe that work, 18 please? 19 A. That was -- that came essentially as a 20 result of the settlement between Kansas and Colorado 21 in the Arkansas River compact case, and coming out of 22 that the state used at least some portion of its 23 settlement money to establish a conservation reserve 24 enhancement program, which essentially adds a layer 25 above normal conservation reserve programs with the</p>	<p style="text-align: right;">Page 9</p> <p>1 A. The analyses were similar insofar as they 2 used similar technique. 3 Q. Okay. In preparing the economic report, 4 did you consider the impact of potential payments 5 under these programs? 6 A. No, I did not. 7 Q. Do you know if any of your co-authors 8 did so? 9 A. No, I don't, but I don't believe any did. 10 Q. Okay. Could you describe generally your 11 role in preparing the economic report? 12 A. I, together with Dr. Tom Johnson from the 13 University of Missouri, Columbia, were responsible 14 for the component that estimated the indirect 15 economic effects. 16 Q. Do you have any expert opinion on the 17 component analyzing the direct economic impact? 18 A. I have the opinion that I have world class 19 partners that worked on that side of the project, and 20 I believe that they are about as careful in crafting 21 an accurate answer as anyone could be, and so I have 22 complete trust in what they gave me as a direct 23 estimate. 24 Q. So you did not question the estimate 25 that was provided to you for direct impact?</p>

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<p style="text-align: right;">Page 10</p> <p>1 A. No, I did not.</p> <p>2 Q. You did no incident analysis of those</p> <p>3 direct impacts?</p> <p>4 A. No, I did not.</p> <p>5 Q. Is it accurate to say that your indirect</p> <p>6 impact analysis begins with the premise of the</p> <p>7 direct impact as quantified by your colleagues?</p> <p>8 A. Yes.</p> <p>9 Q. If that direct impact number is changed</p> <p>10 in any way, does it affect your analysis?</p> <p>11 A. Yes.</p> <p>12 Q. If that direct impact number is reduced,</p> <p>13 how would it affect your analysis?</p> <p>14 A. It would reduce the number that I would come</p> <p>15 up with.</p> <p>16 Q. Do you believe that would be a linear</p> <p>17 response? In other words, if the direct impacts</p> <p>18 were 10 percent less, would the indirect impacts</p> <p>19 be 10 percent less?</p> <p>20 A. Yes. All else being equal.</p> <p>21 Q. Can you describe generally the social</p> <p>22 accounting matrix?</p> <p>23 A. Social accounting matrix is an extension of</p> <p>24 input/output analysis. It essentially provides an</p> <p>25 accounting system for how the economy is connected</p>	<p style="text-align: right;">Page 12</p> <p>1 wrong with this type of an accounting system as long</p> <p>2 as it's applied correctly, a given question that</p> <p>3 needs to be answered.</p> <p>4 Q. What other types of modeling systems are</p> <p>5 available to answer the question that you</p> <p>6 attempted to answer in this document?</p> <p>7 A. There may be -- there may be the</p> <p>8 appropriate -- there may be the application of</p> <p>9 several different types of models, none of which are</p> <p>10 inherently superior to utilizing the techniques that</p> <p>11 we used, and those would include simple -- a simple</p> <p>12 input/output type model from which the social</p> <p>13 accounting matrices are derived. There are other</p> <p>14 types of models that can join the social accounting</p> <p>15 matrix with a series of econometrics equations, which</p> <p>16 may help to identify impacts in other areas beyond</p> <p>17 just the financial accounting. There are computable</p> <p>18 general equilibrium models which would give us</p> <p>19 impacts to essentially social welfare, and there</p> <p>20 again, depending on the nature of the phenomenon that</p> <p>21 you're trying to understand, it may be more important</p> <p>22 to utilize one tool over another. Given the modeling</p> <p>23 assumptions that we were dealing with with this</p> <p>24 particular question, we believe that the social</p> <p>25 accounting matrix analysis was the correct analysis</p>
<p style="text-align: right;">Page 11</p> <p>1 and how financial transactions flow from various</p> <p>2 sectors within that economy. It's a comprehensive</p> <p>3 accounting system, accounting for all financial flows</p> <p>4 that exist within the economy during a period of</p> <p>5 time, typically one year.</p> <p>6 Q. How is it typically employed, in your</p> <p>7 experience?</p> <p>8 A. It can be employed in several ways. It's a</p> <p>9 very rich descriptive tool of the interconnectiveness</p> <p>10 of the economy, and there are many times we use it</p> <p>11 just for educational purposes to help people to</p> <p>12 understand the linkages that exist, then applying the</p> <p>13 appropriate mathematics to that system. We can use</p> <p>14 it in a predictive fashion to try to estimate the</p> <p>15 impacts of various types of policies or events.</p> <p>16 Q. Are there any drawbacks of the social</p> <p>17 accounting matrix, that you're aware of?</p> <p>18 A. No drawbacks, per se, although there are</p> <p>19 alternative modeling systems that may be used</p> <p>20 depending on the nature of the question asked. In</p> <p>21 certain instances it may be appropriate, once again,</p> <p>22 depending on the relationships that we believe to</p> <p>23 exist, given a change or a policy where it may be</p> <p>24 appropriate to utilize a different type of modeling</p> <p>25 tool, but there's nothing necessarily inherently</p>	<p style="text-align: right;">Page 13</p> <p>1 to use.</p> <p>2 Q. What assumptions were those?</p> <p>3 A. That essentially we are dealing with a very</p> <p>4 short-term phenomena. That we restrict our</p> <p>5 perspective to what occurred in the economy in 2005</p> <p>6 and 2006.</p> <p>7 Q. If I understand your indirect effect</p> <p>8 analysis correctly, the area of analysis is</p> <p>9 statewide?</p> <p>10 A. That's correct.</p> <p>11 Q. Is that equivalent to saying that the</p> <p>12 so-called ripple effect of a direct effect in</p> <p>13 northeast Kansas would ripple through the whole</p> <p>14 state, in your assessment?</p> <p>15 A. That would be correct.</p> <p>16 Q. And what is that premise based on?</p> <p>17 A. How the -- how the direct effects that</p> <p>18 accrue to the farmers within the region, what they,</p> <p>19 in turn, do in response to those direct effects, and</p> <p>20 given the short-term nature of the time frame within</p> <p>21 which we consider economic impacts to arise, we</p> <p>22 assume that 100 percent of the impact accrued to</p> <p>23 household consumption, because farmers lost profits,</p> <p>24 which, in turn, affects the level of household income</p> <p>25 that's available. They have no alternative, other</p>

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<p>1 than to curtail household consumption, and household 2 consumption, then, is a phenomenon that spreads the 3 effect very, very broadly, given the wide variety and 4 the large geographic area over which we all spend 5 household -- our household income. 6 Q. How did you determine that household 7 income was curtailed in 2005 and 2006? 8 A. It follows logically that if there is less 9 income generated, something has to happen in response 10 to that, and we've estimated the amount of direct 11 income that was reduced as a result of lower 12 production levels. It follows logically that 13 something has to happen and, in our opinion, it is 14 that household consumption would have to go down. 15 Q. So is it accurate to say that that's an 16 assumption on your part? An informed assumption, 17 albeit. 18 A. That would be correct. 19 Q. So you did not conduct any interviews 20 with individuals in the relevant geographic area 21 to determine how their household income was 22 impacted in 2005, for example? 23 A. That's correct. I did not. 24 Q. Were you present earlier when I asked 25 Dr. Kastens about crop yields in 2005?</p>	<p>1 Q. How was that accounted for in your 2 analysis? 3 A. It was not. 4 Q. Do you have any idea regarding the 5 impact of those ripples in Nebraska? 6 A. I do not. 7 Q. Do you think that the ripples move 8 outward from the center in equal fashion? 9 A. Not always. 10 Q. In your opinion, do you believe that 11 some of those ripples would certainly have reached 12 the state of Nebraska? 13 A. In my opinion, yes. 14 Q. Do you have any opinion about the 15 relative extent of those ripples vis-a-vis those 16 in Kansas? Is it roughly proportional, is it the 17 same, is it 10 percent? Any idea? 18 A. I couldn't say unless I actually modeled it. 19 Q. When we cast our stone into the pond and 20 the ripples go outward, do they attenuate the 21 farther you get from the center? 22 A. Yeah. 23 Q. Or are they uniform statewide? 24 A. They would not be uniform statewide. They 25 would essentially be attracted first to the major</p>
Page 15	Page 17
<p>1 A. Yes. 2 Q. Do you recall hearing that crop yields 3 were at a record high in 2005? 4 A. I believe that was what was said. I don't 5 have a specific recollection of that. I recall the 6 discussion. 7 Q. That's fine. Assuming for sake of my 8 next question that crop yields were at an all time 9 high in 2005, how would that reflect on your 10 educated assumption that household income was 11 negatively impacted that year? 12 A. I'm really not qualified to answer that 13 question. I don't understand the nature of 14 agricultural production economics sufficiently to 15 offer an informed opinion of that. 16 Q. With regard to the ripple effect, this 17 reminds me somewhat of casting a stone into the 18 water and the ripples go outward. Is that a fair 19 analogy? 20 A. That's where it comes from. 21 Q. It seems to me that when you have cast 22 your stone into Kansas, the ripples float only 23 south. Don't the ripples also go north into 24 Nebraska? 25 A. Yes, they do.</p>	<p>1 centers of economic activity where people go to shop, 2 or where there are large conglomerations of various 3 types of economic activity that will capture a 4 greater share of the effect, and so no, it would not 5 be uniform. It would be -- it would be somewhat 6 directional based on exactly where the spending 7 occurred and the connections between places. 8 Q. So under that concept, would it be fair 9 to say, just in laymen's terms, that your average 10 farmer is going to go to the local Wal-Mart to 11 purchase shoes rather than travel 400 miles south 12 to do so? Is that the layperson's concept of what 13 you just mentioned? 14 A. That would generally be true, but not -- 15 that would not be a generalization I would make 16 because we're all more than happy to get in our cars 17 and go lengthy distances for special shopping 18 opportunities and trips. By and large, when I buy a 19 gallon of milk I do it locally, but if occasionally 20 my wife and I go Christmas shopping in Kansas City, 21 we do it. 22 Q. But you buy a lot more milk than you buy 23 Christmas gifts, I assume? 24 A. I'm a big milk drinker. 25 Q. Me, too. I like milkshakes. Does the</p>

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<p>1 economic report assume that all income classes 2 reduce their spending proportionally? 3 A. No. 4 Q. Which classes reduce and in what 5 relation to the others? 6 A. I want to backtrack on what I just said. If 7 I understood your question correctly, you asked would 8 they reduce their spending proportionately. Which 9 income? Please repeat. 10 Q. Certainly. My question was ill phrased. 11 Do each of the classes reduce their spending in 12 the same proportion? 13 A. In our report we assume so, yes. 14 Q. And what is that assumption based on? 15 A. Based on the fact that there was lack of any 16 real data upon which to refine that assumption. 17 Q. In your experience, do people making 18 \$150,000 or more typically have more flexible 19 income? 20 A. That would be correct. 21 Q. More disposable income than, say, 22 someone making \$50,000? 23 A. In absolute terms. 24 Q. Okay. 25 A. Not in proportionate terms.</p>	<p>1 identification by the reporter.) 2 Q. (By Mr. Wilmoth) I'm interested in 3 Pages 1 and 2 of this document. Take your time. 4 Have you had enough time to review that document? 5 A. I believe I have for our purposes here. 6 Q. Dr. Leatherman, Exhibit No. 23 appears 7 to indicate the means by which Kansas would spend 8 and allocate any award provided in this 9 proceeding. For purposes of my next question, 10 assume for the sake of argument, please, that this 11 is precisely how that money would be spent and 12 assume that the award were \$10 million. What 13 effect, if any, would that have, in your view, on 14 the regional economy in northeast Kansas? 15 A. The expenditure of resources will always 16 have some impact. To the extent that it is in the 17 amount of \$10 million, it will probably be compounded 18 by some increment. I can't tell you how much unless 19 I actually model this. I can't tell you whether it's 20 5 percent or 50 percent or what, but generally 21 speaking, the very notion of a multiplier effect is 22 that it will be some increment greater than 1. 23 Unless, of course -- I will take that back, because 24 there are certain kinds of investments which can 25 actually, perhaps, have negative multipliers which</p>
Page 19	Page 21
<p>1 Q. Okay. So those individuals in the 2 \$150,000 income bracket may not necessarily be 3 inclined to reduce spending as much as someone in 4 the \$50,000 income bracket? 5 A. Proportionately it would be less, but to the 6 extent that 150 is a hundred thousand more than 50, 7 the total dollar value is likely to be significantly 8 larger. 9 Q. Okay. When you conducted your indirect 10 effect analysis, did you consider the impact of 11 any payment of damages in this proceeding as an 12 offset to those indirect effects? 13 A. No, I didn't. 14 Q. Do you agree conceptually that if a 15 damage payment were made in this proceeding, that 16 it would have an effect on the regional economy? 17 A. It would depend largely on how it was spent, 18 but yes. 19 Q. Dr. Leatherman, I'll hand you a document 20 that will be marked Exhibit 23, and recognizing 21 that you may not have seen this document, I would 22 ask you to take a moment and familiarize yourself 23 with it. 24 (Whereupon, Leatherman Deposition Exhibit 25 Number 23 was marked for</p>	<p>1 would reduce the value to less than 1, but this 2 probably would have some, and until I did it, I 3 actually couldn't tell you exactly what it would be 4 or at what scale. 5 Q. Is that equivalent in layperson's terms 6 to saying, essentially, that this would produce a 7 positive ripple effect in contrast to a negative 8 ripple effect? Not opining on how big the ripple 9 is, but -- 10 A. I'd have to know more about precisely what 11 they were going to do within these three expenditure 12 categories to say that definitively. 13 Q. Let's look at those for a moment. I 14 direct your attention to the third paragraph, 15 second sentence says, "The amended bill would 16 require monetary damages to be credited first to 17 the existing interstate litigation water fund in 18 an amount necessary to cover the state's expenses 19 for the past Republican River litigation." Do you 20 see that sentence? 21 A. Yes. That suggests to me a leakage from the 22 state. 23 Q. To the State of New Mexico, I presume? 24 A. That's where I presume. 25 Q. Second sentence says, "Five percent of</p>

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<p style="text-align: right;">Page 22</p> <p>1 any remaining monetary damages would be credited 2 to a new Republican River compact compliance and 3 enforcement fund." Do you have any idea what that 4 would entail? 5 A. I'm only speculating, but I would guess that 6 that would be for continued monitoring purposes and 7 modeling purposes. 8 Q. You think that would be a leakage to the 9 state? 10 A. Depending on where the contractors were. If 11 they were Kansas based, it would not. If they were 12 Colorado based, that would represent a leakage. 13 Q. We all know there aren't any good 14 modelers in Colorado. For the record, that was a 15 joke. Final sentence of this paragraph indicates, 16 "The balance would be credited to a new Republican 17 River water conservation projects fund." Do you 18 have any idea what that might mean? 19 A. I really don't, and that's why I'm hesitant 20 to offer a generalization. I really don't. 21 Q. Presumably those conservation projects 22 would be located in the state of Kansas, though? 23 A. I would guess, but I don't know the nature 24 of what they're doing, whether the net effect will be 25 positive or negative to the economy.</p>	<p style="text-align: right;">Page 24</p> <p>1 the basin, there would be a benefit? 2 A. Depending on the nature of the project, 3 potentially, yes. 4 Q. Dr. Leatherman, I would direct your 5 attention to Page 10 of your report. Beneath the 6 heading labeled D. Time Frame of the Analysis. 7 If I'm correctly interpreting this, you chose data 8 from 2004 to build the model used in this 9 analysis. Is that accurate? 10 A. That's correct. 11 Q. Why was that date selected -- that data 12 selected? 13 A. When we first started this process, the only 14 data available in the implant system was for 2004. 15 At the front end of this process I spent considerable 16 time checking the data for accuracy. As time went 17 on, subsequent years data became available. It so 18 happened that IMPLAN, for whatever reason, skipped 19 producing data for 2005 and went directly to 2006. 20 At the time I was faced with the question of should I 21 take similar efforts to verify, check and test the 22 2006 data, which was relatively new, or should I 23 stick with the 2004 data that I knew so well. Given 24 the fact that absent major structural changes in the 25 economy we would expect from year to year the data to</p>
<p style="text-align: right;">Page 23</p> <p>1 Q. If that same \$10 million was spent 2 locally, specifically to compensate the 3 individuals who were allegedly harmed by the 4 activities of the state of Nebraska, how would 5 that affect your indirect impact analysis? 6 A. I'm not an expert on this, but my 7 understanding is that that would not be possible. 8 Q. Which part would not be possible? 9 A. To directly compensate the landowners in the 10 Bostwick Irrigation District with settlement funds. 11 Q. Is that because of some legal 12 limitation? 13 A. Yes. It's my understanding. I'm no expert 14 in this area, however. 15 Q. So if I understand what you're saying, 16 it's your understanding that there's no way to put 17 money back into the local economy from this? 18 A. That would not be correct. There could be 19 ways of doing projects that would benefit that local 20 economy that could be positive, but it will not be a 21 direct income transfer to Bostwick irrigators, is my 22 understanding. 23 Q. Would an example of that be this 24 Republican River Water Conservation Fund, 25 potentially if that was a -- created a project in</p>	<p style="text-align: right;">Page 25</p> <p>1 change relatively little, and therefore, the 2 resulting estimates to change very, very little, I 3 felt, with the confidence that I had in the 2004 4 data, that was good enough to use. It would be -- it 5 would be -- I don't think I could have improved on 6 it. 7 Q. What was the nature of this data? 8 A. The data that supports the IMPLAN system is 9 a -- it consists of a number of elements which are 10 then utilized and manipulated within the system to 11 create the entire accounting structure. The specific 12 data that is input into the system, while I cannot 13 off the top of my head give you necessarily a 14 comprehensive accounting, by and large, it has to do 15 with various types of income, levels of employment 16 and other elements upon which the model ultimately is 17 constructed and based. These data elements 18 essentially come from official U.S. Government 19 statistics. They start with essentially the 20 information generated by the Bureau of Economic 21 Analysis and other elements of the Department of 22 Commerce, which form what we all know and hear every 23 night in the news are official government statistics. 24 They then take those statistics and they utilize 25 various types of state-of-the-art estimation methods</p>

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<p style="text-align: right;">Page 26</p> <p>1 to distribute that to states and then local areas of 2 the economy. That is the data upon which these 3 models are built. 4 Q. You mentioned that the IMPLAN skipped 5 producing data in 2005. Is that what you said? 6 A. They did not produce data for 2005. 7 Q. Forgive my ignorance, who did not 8 produce data for 2005? 9 A. The Minnesota IMPLAN group which supports 10 the IMPLAN impact analysis system. 11 Q. So not these agencies that you referred 12 to in all these government statistics? 13 A. That's correct. 14 Q. They exist. They hadn't been distilled 15 by the Minnesota IMPLAN group or packaged? 16 A. That's correct. 17 Q. Have you had an opportunity to look at 18 that data subsequent to your report for 2005? 19 A. It has not been produced, so. 20 Q. You haven't looked at it independently? 21 A. No. 22 Q. Okay. How did the IMPLAN data for 2004 23 compare to 2006? 24 A. I haven't scrutinized it closely in order to 25 make a definitive judgment. I have worked with the</p>	<p style="text-align: right;">Page 28</p> <p>1 in Nebraska is a leakage. Any impact elsewhere in 2 the United States is a leakage. We have accounted 3 for that. We're just reporting on that that accrues 4 to the Kansas economy. 5 Q. Okay. Thank you. One of the things I 6 didn't pick up on in the report was the notion of, 7 in layperson's terms, covering one's behind in the 8 short term. What I mean by that is, it would 9 appear to be typical in the American economy when 10 hard times strike to rely fairly heavily on 11 credit. Would you agree with that generally? 12 A. I don't really know. Seems to me like in 13 good times we were running up a lot of debt, too. 14 Q. Fair enough. And we're running up even 15 more as we sit here today. 16 A. Indeed. 17 Q. We, in fact, may own a piece of Citibank 18 by the end of the day. My question is this. Did 19 you consider in this report the extent to which 20 individuals within the affected area might 21 continue their purchasing through the use of 22 credit, specifically credit cards and other 23 borrowed income? 24 A. No. 25 Q. Do you think it's possible that that</p>
<p style="text-align: right;">Page 27</p> <p>1 2006 data and now I'm working with 2007 data, by and 2 large it's relatively comparable, at least on first 3 appearance. 4 Q. Let's take about ten minutes, if we can, 5 and we'll come back and we'll finish up before 6 11:00. 7 (Brief recess taken.) 8 Q. (By Mr. Wilmoth) Mr. Leatherman, just a 9 couple more questions and then we'll finish up for 10 the day. I want to return to the ripple effect 11 for just a moment. You have assigned a dollar 12 figure to the indirect impacts in this paper. 13 Correct? 14 A. That's correct. 15 Q. And we have established, I think, 16 earlier that some of the ripple effect would have 17 been felt in Nebraska. Is that correct? 18 A. That's correct. 19 Q. The figure that you report in this 20 paper, is that Nebraska effect subsumed in that 21 number or on top of that number? 22 A. On top of that number. We have accounted -- 23 this is the amount that has accrued to Kansas. We 24 have allowed for all leakages that would otherwise 25 occur. We have accounted for them, and so any impact</p>	<p style="text-align: right;">Page 29</p> <p>1 could have occurred? 2 A. Perhaps to some degree over a short term in 3 some smaller amount, but no, they didn't completely 4 substitute that income and put it on credit. I don't 5 believe that. 6 Q. Okay. One of the other things that I 7 think I understood you to say was that essentially 8 the indirect effects would be felt in the same 9 year as the direct effects. Is that correct? 10 A. No. 11 Q. Okay. 12 A. I'm sorry. 13 Q. Go ahead. 14 A. The indirect effects would occur over some 15 period of time that would likely be greater than a 16 year. That's because of the notion that the dollar 17 turns over a number of times before leakages finally 18 exhaust the entire effect. That time period, 19 depending on the structure of the economy, can be a 20 couple years to, perhaps, five, six or seven, 21 depending on the nature of the impact, depending on 22 the structure of the economy, but it is not a one 23 year phenomenon. 24 Q. Okay. And if the economy changes during 25 that period of time, does that affect your</p>

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<p>1 analysis at all? In other words, if 2007 were a 2 banner year, for example, and household incomes 3 rose substantially. 4 A. The economy is always changing to some 5 degree, and those changes will, indeed, affect how 6 the indirect effects ultimately play out. We make 7 some simplifying assumptions with regard to doing 8 these things because we are doing a relative -- a 9 static analysis, but I'm thinking that by and large, 10 absent there being very substantial structural 11 changes to the economy, it plays out about like we 12 estimate. 13 Q. I thought I understood you to say 14 earlier that the IMPLAN model was selected because 15 it could deal with the specific years and short 16 term -- on the short term. Is that correct? 17 A. That is not quite correct. 18 Q. What did you mean? 19 A. We did not -- 20 Q. What did you say? I have forgotten. 21 Excuse me. 22 A. Well, I have forgotten as well. I'll try it 23 again. 24 Q. Okay. 25 A. We did not select IMPLAN specifically</p>	<p>1 Minnesota IMPLAN data were similar? 2 A. I have not observed any great variation in 3 my work with the '06 data compared to my work with 4 the '04 data. 5 Q. Okay. And the Minnesota IMPLAN data, if 6 I recall correctly, is essentially a 7 conglomeration of various statistics, including 8 income levels and things like that? 9 A. Yes. There are data files that depend -- 10 they essentially produce the information for the 11 United States as a whole, all 50 states, all 3,000 12 odd counties, and then they have developed methods 13 for breaking it down to a zip code level, and so that 14 is all potentially available. For this -- for this 15 project we utilize the Kansas State data file, and 16 within that is state level income information, 17 employment information, household income distribution 18 and some other kinds of things that go into the 19 construction of these accounts. 20 Q. Can you explain why the reduction in 21 economic production, household incomes, etcetera, 22 that were apparently experienced in 2005 aren't 23 reflected in the '06 IMPLAN data? 24 A. Given the size of the overall economy, it's 25 a relatively small shock. I can't tell you what the</p>
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<p>1 because of the time frame of the analysis or anything 2 else. Given the nature of the economic change that 3 we presumed to occur, IMPLAN certainly is an 4 appropriate tool to utilize. We could have utilized 5 other tools and if we had utilized them properly, we 6 would have come up with probably about the same 7 amounts. But no, we did make a number of 8 suppositions with regard to the nature of the 9 economic changes and when they occurred. Given those 10 suppositions, IMPLAN is an appropriate tool to use to 11 try to answer those impact questions. 12 Q. Do I understand the report to presume 13 that reduced household income from a reduced crop 14 yield in 2005 is generally felt in the same year? 15 A. To be honest, you would have to ask one of 16 the production economists how that would work. I 17 could only guess. 18 Q. Who would that be? 19 A. You could ask Terry Kastens. 20 Q. So you didn't analyze, for example, 21 whether individual farmers within KBID might have 22 actually sold their crops in the later year? 23 A. I have no idea what they would have done. 24 Q. Okay. One last thread here. If I heard 25 you correctly, you said that the '04 and '06</p>	<p>1 numbers are, but we're talking in the Kansas State 2 economy of some billions of dollars. You make a 3 \$10 million change, it's not that big a rock to throw 4 into the body of water. 5 Q. So you don't necessarily know at the zip 6 code level what the difference is between the '06 7 and the '04 data? 8 A. I have not taken any effort to formally 9 compare or analyze changes in the two data sets. 10 Q. But at the zip code level, is it your 11 estimation that there aren't significant 12 differences between the '06 and '04 data? 13 A. I have not seen the zip code level data, nor 14 I don't own it. 15 MR. WILMOTH: I think that's all we 16 have. Pete, do you have anything? 17 MR. AMPE: I think you covered it. 18 MR. WILMOTH: John, do you have 19 anything? 20 MR. DRAPER: Take a minute? 21 MR. WILMOTH: Sure. 22 (Brief recess taken.) 23 MR. DRAPER: No further questions. 24 (Witness excused.) 25</p>

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9
10 STATE OF _____)
11) SS:
12 COUNTY OF _____)
13 Subscribed and sworn to before me this _____
14 day of _____, 2009.
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21 _____
22 NOTARY PUBLIC
23 My Commission Expires: _____
24 In re: Non-Binding Arbitration
25

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1 CERTIFICATE
2
3 I, JANE A. BLACKERBY, a Certified Court
4 Reporter within and for the State of Missouri, hereby
5 certify that the within-named witness was first duly
6 sworn to testify the truth, and that the deposition
7 by said witness was given in response to the
8 questions propounded, as herein set forth, was first
9 taken in machine shorthand by me and afterwards
10 reduced to writing under my direction and
11 supervision, and is a true and correct record of the
12 testimony given by the witness.
13 I further certify that I am not a relative
14 or employee or attorney or counsel of any of the
15 parties, or relative or employee of such attorneys or
16 counsel, or financially interested in the action.
17 WITNESS my hand and official seal at
18 Kansas City, Jackson County, Missouri, this 28th day
19 of February, 2009.
20
21
22 JANE A. BLACKERBY, RPR, CCR No. 877
23 Certified Court Reporter
24
25

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